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SUBJECT: CROSS-STRAIT TELECOMMUNICATIONS - INDUSTRY  
COOPERATION, GOVERNMENT RESTRICTION

#### Summary

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11. (SBU) Cross-Strait telecommunications thrive with over 50 million direct dial calls placed across the Strait every month that account for 35 percent of Taiwan's outgoing international calls. Many Taiwan telecom firms have partnered with PRC counterparts to provide special cross-Strait services aimed at Taiwan businesses with investment in the Mainland. However, Taiwan prohibits investment in the PRC telecom sector. Many firms have concerns about the investment environment in the Mainland, but some are looking into future investment opportunities. The Taiwan government should move out of the way and allow cross-Strait telecommunications commerce to grow. End summary.

#### Industry Thriving

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12. (U) Cross-Strait telecommunications is a thriving industry. Over 50 million telephone calls totaling more than 190 million minutes were placed across the Taiwan Strait in September. Calls to Mainland China accounted for 35 percent of Taiwan's outgoing international direct dial calls in number of calls and 44 percent in total minutes. China has been the number one destination for international calls from Taiwan since 1995. Furthermore, these figures only take into account traditional fixed-line and mobile phone telephone calls. Voice-over-internet protocol (VOIP) calls, which offer cost and privacy advantages, are not counted. China is also the largest source of roaming charge revenue for Taiwan's mobile phone service providers.

13. (U) Phone calls across the Strait are easy to place and fairly inexpensive. Charges for a direct dial call to the Mainland are as low as USD 0.10 per minute. Fierce competition has pushed prices down substantially in recent years and continues to benefit consumers. As with international direct dial calls and mobile phone calls in other parts of the world, connecting charges for calls placed across the Strait are processed through international clearinghouses. Officially, Taiwan and the PRC have not yet implemented direct cross-Strait telecommunications. All of this traffic takes place under the fiction that because the calls traverse submarine cables that are owned by international consortia or are transmitted by satellites, the connections are indirect.

#### Commercial Partnerships Expanding

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14. (U) After international direct dial service to the PRC was established in 1989, the majority of cross-Strait calls was to family members. In recent years, Taiwan's massive investment in the PRC and the sizable community of Taiwan businessmen who live in the Mainland to oversee these investments have driven most of the demand for cross-Strait telecommunications. Targeting these business customers, several Taiwan telecom firms have entered agreements with PRC firms to provide various cross-Strait telecom services. Under these agreements, the PRC and Taiwan firm each provide half of the circuit for specialized telecom services such as international private leased circuit (IPLC), internet protocol virtual private network (IPVPN), and video-conferencing. The firms offer one-stop shopping for billing and service. So for example, a Taiwan firm with a factory in the PRC and headquarters in Taiwan might request service from a Taiwan telecom firm, have equipment installed and maintained in both Taiwan and the Mainland, and then receive a single bill from the Taiwan telecom provider.

15. (U) Major Taiwan fixed-line service providers, such as state-owned Chunghwa Telecom (CHT) and private Taiwan Fixed Network (TFN), have partnered with multiple PRC firms to offer these services. CHT's Mainland partners include China Telecom, China Netcom, China Unicom, and China Mobile. In addition, some Taiwan telecom firms that lack their own circuit facilities but lease the circuits of other firms also

offer similar services. Chief Telecom, a firm that focuses on international data services, offers cross-Strait data transmission using the networks of firms like CHT and TFN. Data transmission applications include many of the same services offered by fixed-line service providers such as IPLC and video-conferencing.

#### Investment Prohibited -----

16. (SBU) While China has become the primary destination for investment among Taiwan's manufacturing firms, Taiwan telecom industry investment in the PRC is virtually non-existent. The Taiwan government prohibits any investment that falls under the category of telecommunications but is in the process of reviewing the prohibition for possible liberalization. Other factors also limit interest in Mainland investment among Taiwan telecommunications firms. Many firms are concerned about the investment environment in the Mainland. Taiwan Telecommunication Industry Development Association Chief of Public Affairs Rachel Liu told AIT/T that excessive restrictions and lack of regulatory transparency discourage telecommunications investment in the PRC. In addition, as CHT Vice President of the International Business Group T.F. Leng explained, CHT is prohibited as a state-owned enterprise from investing anywhere overseas. On the other hand, Charles Hsiung, Senior Vice President at Chief Telecom told us that his firm is looking into investing in an international data center in the PRC after such investment is legalized in the PRC under WTO accession commitments in 2005. TFN Executive Vice President Feng Chian also indicated that TFN is looking into PRC telecommunications licensing regulations to see how they can expand Mainland operations.

#### Comment - Taiwan Government Standing in the Way -----

17. (SBU) In some key industries such as semiconductors and flat-panel displays, Taiwan prohibitions are the only things holding back investment in the Mainland. PRC regulations and its investment environment are also contributing factors in the telecommunications sector. However, if liberalization in the Mainland continues to outpaces liberalization in Taiwan, the Taiwan government alone will shoulder the blame for limiting the opportunities available to Taiwan telecommunications businesses. In some ways, this is already the case. Philby Lee Chen Executive Vice President of Far EastTone, a Taiwan cellular phone company, complained to AIT/T about Taiwan government regulations that prohibit open solicitation on behalf of PRC firms. Aiming at Taiwan travelers to the Mainland, Far EastTone would like to sell SIM cards and calling cards for PRC firm networks at its own stores in Taiwan. Under current regulations, this is not allowed. This is exactly the kind of counterproductive restriction that does not protect Taiwan's security, public health or businesses and needs to be eliminated to keep Taiwan competitive. End comment.  
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